MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	8 FEBRUARY 2024	REPORT NO:	CFO/11/24
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT, MIKE REA		
RESPONSIBLE OFFICER:	MIKE REA	REPORT AUTHOR:	MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	FINANCIAL REVIEW 2023/24 - OCTOBER TO DECEMBER		

APPENDICES:	APPENDIX A1:	REVENUE BUDGET MOVEMENTS SUMMARY
	APPENDIX A2:	FIRE AND RESCUE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A3:	CORPORATE SERVICE REVENUE BUDGET MOVEMENTS
	APPENDIX A4:	BUDGET MOVEMENTS ON RESERVES
	APPENDIX B:	CAPITAL PROGRAMME 2023/24
	APPENDIX C:	APPROVED AUTHORITY CAPITAL PROGRAMME 2023/24 – 2027/28

Purpose of Report

1. To review the revenue, capital, and reserves financial position for the Authority for 2023/24. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period October to December 2023.

Recommendation

2. That Members;
    a. note the contents of the report;
    b. approve the proposed revenue and capital budget alignments;
    c. approve the use of the £1.100m forecast revenue variance to fund an increase in the Inflation Reserve £0.500m, an increase in the Smoothing Reserve £0.400m and fund a £0.200m revenue contribution to capital and reduce the level of borrowing; and
    d. instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2023/24.

Executive Summary

Revenue:
The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 23 February 2023. The approved MTFP delivered a balanced budget for 2023/24 based on key budget assumptions around costs, in particular pay. This report updates members on the 2023/24 budget position and any issues arising in the year that may impact on the future years' financial position.

The MTFP assumed a 5% pay award for 2023/24, the firefighters pay award has been agreed and is consistent with the 5% budget assumption. The Local Government staff have accepted a pay offer of a £1,925 fixed sum or 3.88% (whichever is the highest), this equates to a +6% increase on the non-uniformed staff employee budget and is £0.140m above the budget assumption. The £0.140m increase will be contained within the overall employee budget for 2023/24. The Authority will need to consider the impact of the £0.140m increase as part of the 2024/25 budget process.

The report identifies a net variance of £1.100m, of which £0.600m relates to employee underspend and £0.500m relates to additional interest on balances. Members are asked to approve the use of this variance to fund an increase in the Inflation Reserve £0.500m, an increase in the Smoothing Reserve £0.400m and fund a £0.200m revenue contribution to capital and reduce the level of borrowing.

The total budget requirement remains at the original budget level of £67.921m. Appendix A1 – A4 outline in detail all the revenue budget and reserve movements between October and December 2023.

Capital:
The capital programme planned spend has increased by £6.224m in the quarter and there is £8.191m rephasing from 2023/24 into 2024/25 and future years. The revised Capital Programme is outlined in Appendix B and C.

Reserves & Balances:
The general balance remains unchanged at £3.000m. All movements in committed reserves are outlined in Appendix A4.

Treasury Management:
No new long-term borrowing has been arranged and the Authority has continued its policy of reducing investments and only taking short term borrowing to cover cash flow requirements.

Introduction and Background

3. The purpose of this report is to enable the Authority to monitor its income and expenditure levels against its budget on a regular basis throughout the year to ensure effective financial management.

4. This report is the review of the Authority's position up to the end of December of the financial year 2023/24 (October – December 2023).

5. In order to ensure that the financial reviews provide a regular and effective financial health check on all aspects of the Authority's finances the following structure has been adopted.

Financial Review Structure	
Section	Content
A	Current Financial Year Review:- • Revenue Budget, • Capital Programme, and • Movement on Reserves
B	Treasury Management Review

(A) Current Financial Year – 2023/24

6. The purpose of the financial review report is to provide Members with an assurance that the approved budget remains robust and that the current forecast of expenditure can be contained within the available resources. If actual expenditure or income for the year is inconsistent with the current budget then the report will, if necessary, identify the appropriate corrective action.

Revenue Position:

7. Budget Movements: there have been a number of budget adjustments with no net impact because they are either self-balancing virements within department budgets or budget increases financed by reserves in line with previously agreed Authority decisions. Key budget adjustments in quarter 3 included:-

- At the October 2023 Authority meeting, Members' approved a re-alignment of the ICT capital budget projects pertaining to three large and complex ICT infrastructure projects (CFO/051/23). The projects were Enhanced LAN, Enhanced Audio-Visuals (AV) and ICT Server Virtualisation and Upgrade to SQL. The projects required a net increase to the current ICT capital programme of £0.248m, funded through a drawdown from the Capital Reserve.
- A drawdown of £0.010m from the Community Risk Management Reserve equipment reserve to fund driver training for the Prince's Trust support staff.

- A full breakdown of the reserve movements is outlined in Appendix A4.
- Salary budgets have been increased for the following:
    - £0.607m increase in the non-uniformed employee budget to cover the 2023/24 pay award, funded from the inflation provision.
    - Increase in firefighter £0.152m & non-uniformed £0.332m employee budgets for the Protection Uplift Programme and Beacon Programme. These uplifts are funded by an increase in Specific Grant income.
- Training Expenses increased by £0.300m to fund the Protection Uplift Programme Training £0.165m & the Apprenticeship Programme £0.135m. These uplifts are funded by an increase in Specific Grant income.
- Other inflationary virements from the inflation provision include ICT Service Provider £0.113m, Estates Service Provider £0.059m and PFI unitary Charge £0.167m and Operating Leases £0.059m.
- The National Resilience Assurance budget has been increased by £0.185m realigned to reflect agreed Home Office spending plans, and is 100% funded by grant income.
- Other self-balancing virements to cover small adjustments within non-employee budget lines.

8. **The net budget requirement remains at £67.921m, which is consistent with the original budget**. Appendix A1 – A3 outline the budget movements in the quarter.

9. <u>Update on Budget Assumptions and forecast actual expenditure:</u>

10. The key budget assumptions for 2023/24 are:

    - Annual pay awards of 5%, and
    - Price inflation – general price increases of 4% to 5%; outsourced contracts increases of 10%, and energy and utility costs remaining at the 2022/23 rates, and
    - No significant unplanned growth pressures beyond those built into the MTFP

11. **Annual Pay awards assumption**, 5% pay award for 2023/24;
    The last financial review report covered the impact of the Local government staff 2023/24 pay offer of £1,925 fixed sum or 3.88% (whichever is the highest), this equates to a **+6% increase** on the non-uniformed employee budget, 1.0% or £0.140m above the budget assumption. The pay award offer has been accepted. The £0.140m increase can be contained within the overall employee budget for 2023/24. The Authority will need to consider the impact of the £0.140m increase as part of the 2024/25 budget setting process.

    The 2023/24 firefighter pay award has been agreed and is consistent with the 5% budget assumption.

12. **Non-pay inflation;**
The latest forecasts indicate 2023/24 non-pay inflation can be contained within the inflation provision.

13. Unforeseen Growth;
No 2023/24 unavoidable growth. The budget assumes all spending requirements can be met from the approved budget

14. The following paragraphs consider the December forecast revenue outturn position and potential variances;

I. **Employee Costs**;
Employee costs make-up nearly 80% of the Authority's revenue expenditure budget (*net of revenue costs associated with capital spend*) and is the most risk critical area of the financial plan. As a result, these costs are monitored extremely closely.

The latest uniform employee forecast indicates a small potential **underspend of £0.300m** against the budget due to limited overtime uptake.

The non-uniform establishment forecast indicates a **£0.300m** underspend due to staff recruitment and retention problems.

II. **Non-Employee Costs;**
All other spend and income is expected to be consistent with the approved budget.

III. **Interest on Balances;**
The recent increase in interest rates has meant investment income is now expected to exceed the budget, £0.450m, **by £0.500m**.

15. Overall the latest forecast has identified a net revenue variance of £1.100m. The Director of Finance and Procurement would recommend that Members' approve that the £1.100m variance be used to;

- Increase the Inflation Reserve £0.500m – this would be used to minimise the impact of future pay and price increases above those assumed in the MTFP.
- Increase the Smoothing Reserve £0.400m – this would be used to support the significant financial challenges that the Authority faces as public spending is reduced in the MTFP.
- Increase the revenue contribution to capital £0.200m – this will be used to marginally lower the required level of borrowing in 2023/24.

The table overleaf summarises the year-end forecast position based on spend to the end of December 2023:

Anticipated Year-End Revenue Position (excl. National Resilience)

	TOTAL BUDGET	ACTUAL as at 31.12.23	FORE-CAST	VARI- ANCE
	£'000	£'000	£'000	£'000
Expenditure				
Employee Costs	58,375	42,528	57,775	-600
Premises Costs	3,381	2,714	3,381	0
Transport Costs	1,394	978	1,394	0
Supplies and Services	3,645	2,119	3,645	0
Agency Services	7,108	4,853	7,108	0
Central Support Services	656	535	656	0
Capital Financing	19,662	0	19,662	0
Income	-15,499	-13,718	-15,499	0
Net Expenditure	78,722	40,009	78,122	-600
Contingency Pay&Prices	758	0	758	0
Cost of Services	79,480	40,009	78,880	-600
Interest on Balances	-450	-987	-950	-500
Movement on Reserves	-11,109	0	-11,109	0
Total Operating Cost	**67,921**	**39,022**	**66,821**	**-1,100**

16. The Director of Finance and Procurement will continue to monitor the position during the year to look to deliver savings to fund additional revenue contributions to capital outlay in order to reduce the level of borrowing in the current capital programme.

17. Debtor accounts under £5,000 may be written off by the Director of Finance and Procurement. Three debtor accounts were written off in the quarter totalling £843.92 plus VAT as the service was likely to incur more costs than the value of the debt in an attempt to recover the debt.

Capital Programme Position:

18. The last financial review report (CFO/053/23) approved a 5-year capital programme worth £63.592m. This has now been updated for scheme additions and changes during quarter 3 of (£6.224), as outlined below:-

a) Officers have reviewed the current 2023/24 programme to identify likely scheme start and completion dates and as a result identified £8.191m rephasing into 2024/25 and future years. The most significant rephasing is due to;

i. The refurbishment of Bromborough fire station £1.017m has been rephased into 2024/25 whilst the scope of works is being reviewed. The refurbishment at Kirkby fire station £0.312m, has been rephased into 2024/25 in line with the current Estates work plan. The final payment for the new TDA £2.000m has been rephased into 2024/25 to reflect cash flow and retention, project due for completion in April 2024. Delays in finalising other build projects due to resources being prioritised on the new TDA and other major schemes, has meant a further £1.643m of building work has been rephased into 2024/25 and future years.

ii. A number of ICT schemes have been rephased into 2024/25. The MDT Software Solution refresh has been rephased to allow resources to be focused on other major projects in 2023/24 and the Financial Systems upgrade is starting in August 2024. The ICT rephasing has been offset by the ICT realignment (CFO/051/23 - see paragraph 7) resulting in rephasing total of £0.042m.

iii. Operational Equipment purchases £0.279m have been rephased into 2024/25. The Thermal Image Camera replacement has been rephased to 2024/25 due to procurement processes still taking place in the North West and will be purchased in April 2024.

iv. A number of vehicle capital schemes £2.897m have been rephased into 2024/25 and future years.

- Special vehicles - the Authority has a number vehicles in the build stage and planning work ongoing for other specialist projects. The Authority has extended the life of a number of vehicles due to good condition these include Prime Movers, the Crain Lorry Curtainsider and the ICU POD.

- Ancillary vehicles - The Authority is experiencing delays in vehicle supplies and some manufacturers have closed their order books. The Authority is currently carrying out an ancillary vehicle review and has also taken the opportunity to extend the life of vehicles due to good condition.

b) The Authority managers the National Resilience Asset Refresh on behalf of the Home Office and receives 100% funding for the scheme. During the quarter £6.000m of planned asset refresh has been identified and built into the capital programme.

c) At the October 2023 Authority meeting, Members' approved a re-alignment of the ICT capital budget projects pertaining to three large and complex ICT infrastructure projects (CFO/051/23). The projects were Enhanced LAN, Enhanced Audio-Visuals (AV) and ICT Server Virtualisation and Upgrade to SQL. The projects required a net increase to the current ICT capital Programme of £0.248m. As explained above this will be funded through the Capital Reserve.

d) At the December 2023 Policy and Resources Committee, members approved a scheme to enhance mobilisation (CFO/056/23). The scheme required a net increase to the current ICT capital programme of £0.140m to be funded by borrowing.

e) Other small amendments include new ICT hardware £0.012m, server upgrade £0.10m and boat trailers £0.005m

19. The capital programme changes are summarised in the table below. The revised detailed capital programme is attached as Appendix B (2023/24 Capital Programme) and Appendix C (2023/24–2027/28 Capital Programme) to this report.

Movement in the 5 Year Capital Programme						
	Total	2023/24	2024/25	2025/26	2026/27	2027/28
Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Amendments to Approved Schemes;						
Qtr 3 re-phasing of schemes from 2023/24 into future years	-191.0	-8,191.3	5,851.2	739.5	500.0	909.6
NRAT Asset Refresh Grant	6,000.0	6,000.0				
Re-alignment of ICT (CFO/051/23)	247.5	247.5				
Enhanced Mobilisation (CFO/56/23)	140.0	140.0				
IT/Boat Trailers	28.0	28.0				
	6,224.5	**-1,775.8**	**5,851.2**	**739.5**	**500.0**	**909.6**
Funding						
Revenue Contribution to Capital Outlay (RCCO)						
IT/Boat Trailers	28.0	28.0				
Capital Reserve						
Re-alignment of ICT (CFO/051/23)	247.5	247.5				
Borrowing						
Re-phasing from 2023/24	-191.0	-8,191.3	5,851.2	739.5	500.0	909.6
Enhanced Mobilisation (CFO/56/23)	140.0	140.0				
Grant						
Home Office - NRAT	6,000.0	6,000.0				
	6,224.5	**-1,775.8**	**5,851.2**	**739.5**	**500.0**	**909.6**

Use of Reserves:

20. The analysis in Appendix A4 outlines the reserve movements in the quarter. A £0.258m draw-down adjustment was required as outlined in paragraph 7 of this report.

21. The general revenue reserve has remained unchanged at £3.000m.

(B) Treasury Management

22. The Authority continues to "buy in" Treasury Management services from Liverpool City Council. The following paragraphs reflect Treasury Management activities in the period October to December 2023.

23. **Prospects for Interest Rates;**
The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The

Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

Looking ahead, however, the recent downward trends in CPI and core inflation are expected to stall over the next few months before starting to decline more decisively again in February. On this basis the Bank of England will probably not feel comfortable cutting interest rates until the second half of 2024.

Rates are forecast to fall back over the next two to three years as inflation dampens, with 50-year PWLB rates currently forecast to stand at 3.90% by the end of December 2025.

Gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. The 1 year PWLB rate rose from a low of 4.65% on 6 April to a peak of 6.36% on 6 July. Longer term PWLB 50 year rates have risen from a low of 4.27% on 5 April to a peak of 5.74% on 23 October.

With current elevated borrowing rates it may be advisable not to borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.

24. **Capital Borrowings and the Portfolio Strategy;**
The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority envisages that no new long term borrowing will be required in 2023/24. In the short-term, and at a time when long-term rates are relatively high, the Authority will continue to mitigate interest costs by use of internal resources ahead of further borrowing. Where borrowing is required the Authority may initially choose to benefit from lower short term rates available from the intra-authority market and consider taking longer-term PWLB debt when there is no further value to be obtained from the intra-authority market. Against this background, Treasury Officers will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. Recent rises in longer term interest rates may provide more favourable debt rescheduling opportunities. Any rescheduling that takes place will be reported to members in monitoring reports.

25. **Annual Investment Strategy;**
The investment strategy for 2023/24 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with DLUHC Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list.

Extreme caution has been taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with highly rated or part-nationalised banks and AAA rated money market funds has enabled reasonable returns in the current interest rate environment. In the period 1st October to 31 December 2023 the average rate of return achieved on average principal available was 5.29%. This compares with an average SONIA rate (Sterling Overnight Rate) of 4.89%.

The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2023/24 are as follows:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
Ultra-Short Duration Bond Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

No limits on investments with the UK Government and Local Authorities have been set because they are considered to be of the highest credit quality and are essentially risk free. The limits placed on other categories reflect some uncertainty and marginally higher risk profile of the institutions within those categories.

The Authority had investments of £34.200m as at 31st December 2023, see table below:

ANALYSIS OF INVESTMENTS END OF QUARTER 3 2023/24

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Federated Investors UK (Overnight)	AAA	3,000,000					4.90
Legal & General	A+	2,700,000					5.05
HSBC (MFRS Deposit Account)	A			500,000			1.78
Newcastle BS					1,000,000		5.90
Aberdeen CC						3,000,000	5.60
Birmingham CC						3,000,000	4.45
Cornwall Council						3,000,000	5.50
East Dumbartonshire Council						3,000,000	5.45
Folkstone & Hythe DC						2,000,000	5.60
Leeds CC						3,000,000	5.40
London Borough of Barking & Dagenham						3,000,000	5.35
Rushmoor Borough Council						3,000,000	5.65
The Highland Council						2,000,000	5.60
Wyre Forest DC						2,000,000	2.00
Totals		**5,700,000**	**0**	**500,000**	**1,000,000**	**27,000,000**	**4.87**
Total Current Investments						**34,200,000**	

**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

26. **External Debt Prudential Indicators;**

The external debt indicators of prudence for 2023/24 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt: £79 million
Operational boundary for external debt: £66 million

Against these limits, the maximum amount of debt reached at any time in the period 1 October to 31 December 2023 was £33.7 million.

27. **Treasury Management Prudential Indicators;**

The treasury management indicators of prudence for 2023/24 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 50%

The maximum that was reached in the period 1 October to 31 December 2023 was as follows:

Upper limit on fixed interest rate exposures: 100%
Upper limit on variable interest rate exposures: 0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period 1 October to 31 December 2023 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum	Minimum
Under 12 months	50%	0%	0%	0%
12 months and within 24 months	50%	0%	0%	0%
24 months and within 5 years	50%	0%	0%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	100%	0%	100%	100%

c) Total principal sums invested for periods longer than 365 days

The limit for investments of longer than 365 days was set at £2 million for 2023/24. One investment of £2m has been placed during 2023/24.

Equality and Diversity Implications

28. There are no equality and diversity implications contained within this report.

Staff Implications

29. There are no staff implications contained within this report.

Legal Implications

30. There are no legal implications directly related to this report.

Financial Implications & Value for Money

31. See Executive Summary.

Risk Management and Health & Safety Implications

32. There are no Risk Management and Health and Safety implications directly related to this report.

Environmental Implications

33. There are no Environmental implications directly related to this report.

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

Our Purpose: Here to serve, Here to protect, Here to keep you safe.

34. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority's Mission.

BACKGROUND PAPERS

CFO/063/22 "MFRA Budget and Financial Plan 2023/2024-2027/2028" Authority 23rd February 2023.

CFO/038/23 "Financial Review 2023/24 – April to June" Community Safety Committee 6th September 2023.

CFO/053/23 "Financial Review 2023/24 – July to September" Policy and Resources Committee 14th December 2023.

GLOSSARY OF TERMS

MTFP Medium Term Financial Plan

TDA	Training & Development Academy
GDP	Gross Domestic Product
PWLB	Public Works Loans Board